~~Mr Crane~~
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ANNUAL REPORT for the year ended December 31st, 1967

THE ALGOMA STEEL CORPORATION, LIMITED

1967

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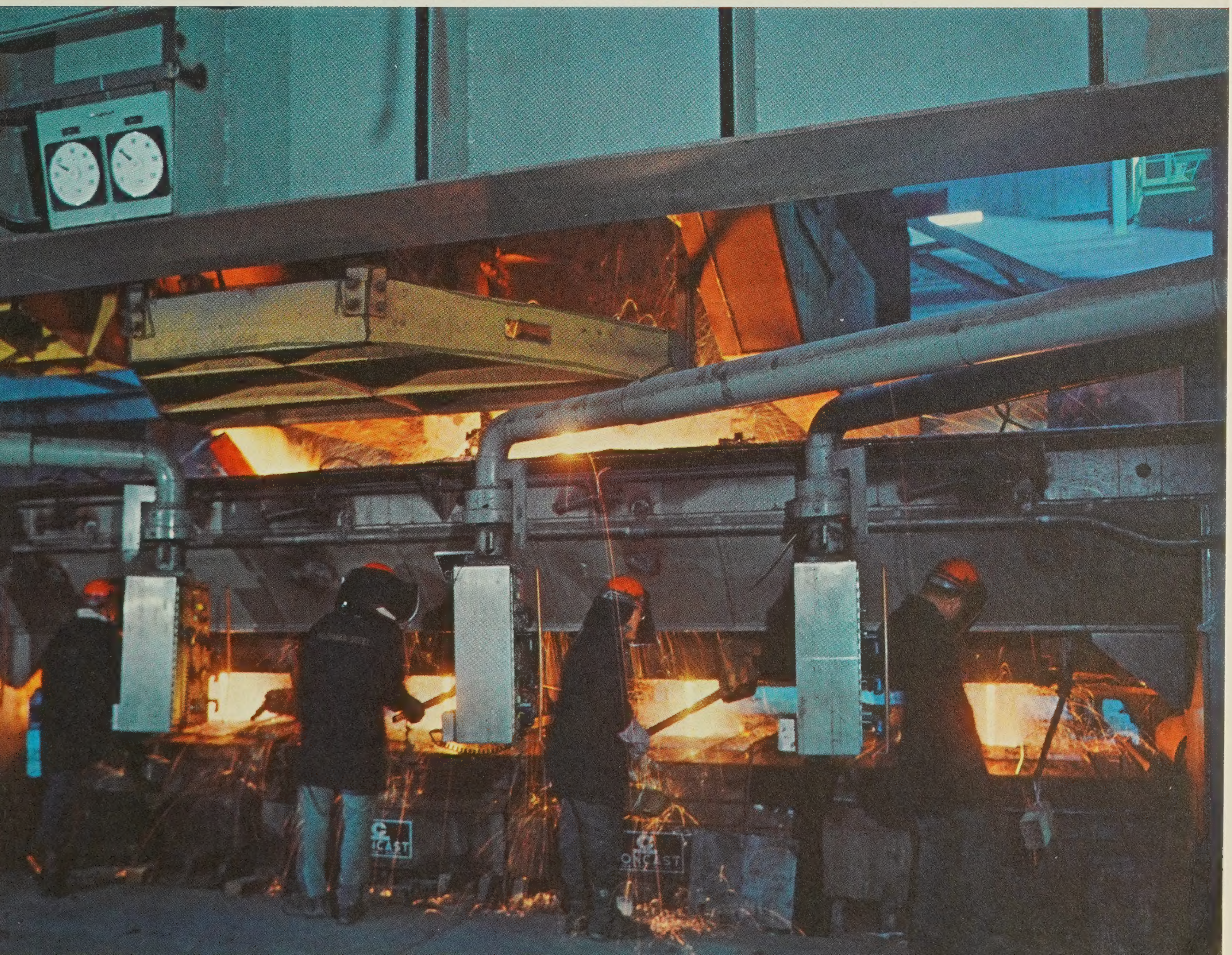
THE ALGOMA STEEL CORPORATION, LIMITED

STATISTICAL SUPPLEMENT TO 1967 ANNUAL REPORT

Continuous casting of steel—Algoma's latest production unit



COMPOSITION OF CONSOLIDATED SALES

	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %
Steel products	90	91	89	88	85	81	78	75	74	70
Pig iron	6	6	8	8	11	12	13	14	15	17
Sinter	1	1	1	1	1	3	4	5	6	8
Coke, coal chemicals, and sundry	3	2	2	3	3	4	5	6	5	5
	100	100	100	100	100	100	100	100	100	100

The composition of consolidated sales in 1967 was substantially the same as in 1966.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %
Eastern Canada	13	15	14	13	12	13	10	10	6	6
Ontario	56	59	59	58	53	51	52	54	58	59
Western Canada	14	11	12	14	13	12	11	9	10	11
United States	17	15	15	15	22	23	21	20	26	19
Off-shore						1	6	7		5
	100	100	100	100	100	100	100	100	100	100

The proportion of sales in Western Canada increased in 1967 with greater resource development, the proportion in Eastern Canada and Ontario declined as a result of strikes and reduced construction activity and the proportion represented by exports to the United States was higher.

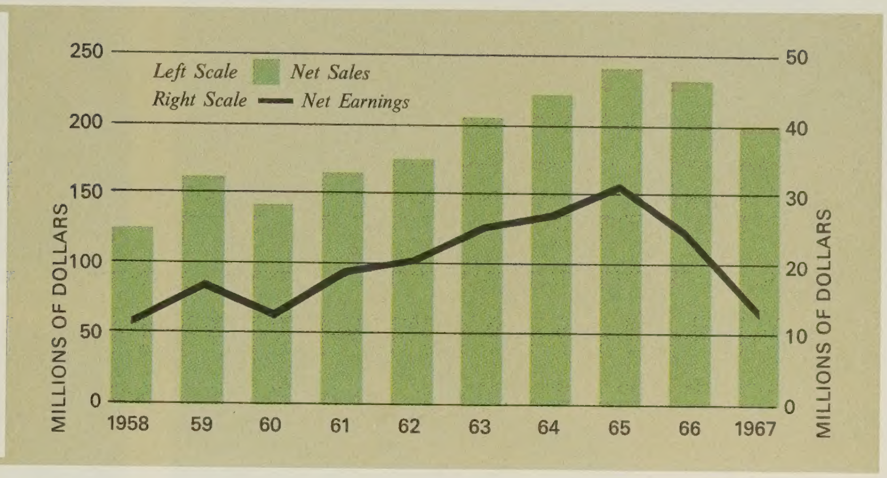
STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %
Flat rolled	48	48	51	51	49	44	46	49	50	42
Heavy structurals including wide flange beams	21	21	19	21	20	21	13	10	10	12
Rails and fastenings	7	7	5	7	7	6	6	9	15	25
Bars and light structurals	7	6	5	5	5	6	6	7	6	9
Semi-finished including tube rounds	17	18	20	16	19	23	29	25	19	12
	100	100	100	100	100	100	100	100	100	100

There was practically no change in the composition of steel product shipments in 1967.

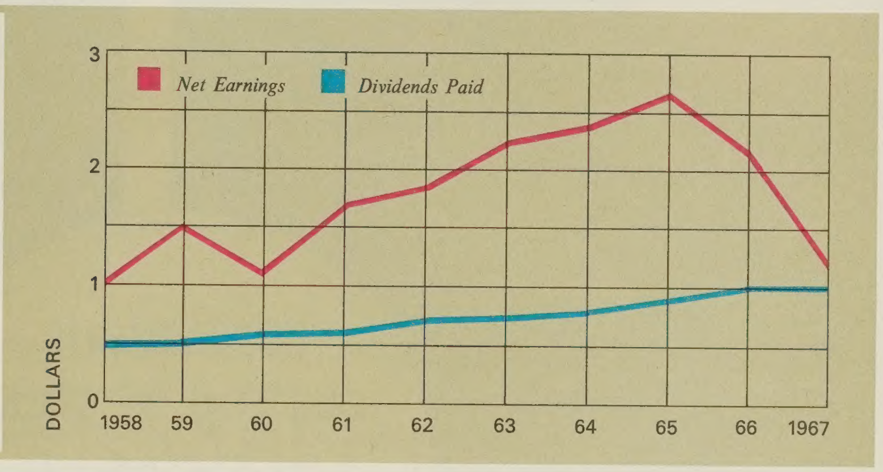
NET SALES AND NET EARNINGS

Sales and earnings declined in 1967 as a result of strikes, increased costs and an extraordinary charge to earnings.



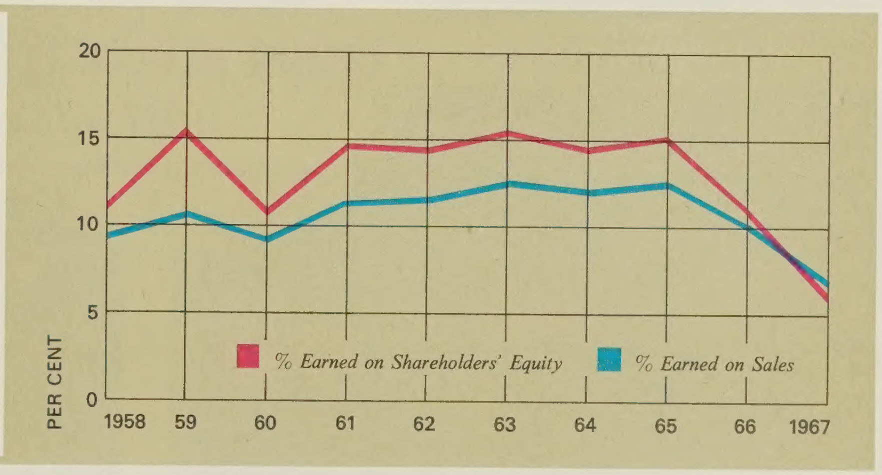
NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Dividends were continued at the same rate in 1967 as in 1966 and amounted to 82 per cent of earnings.



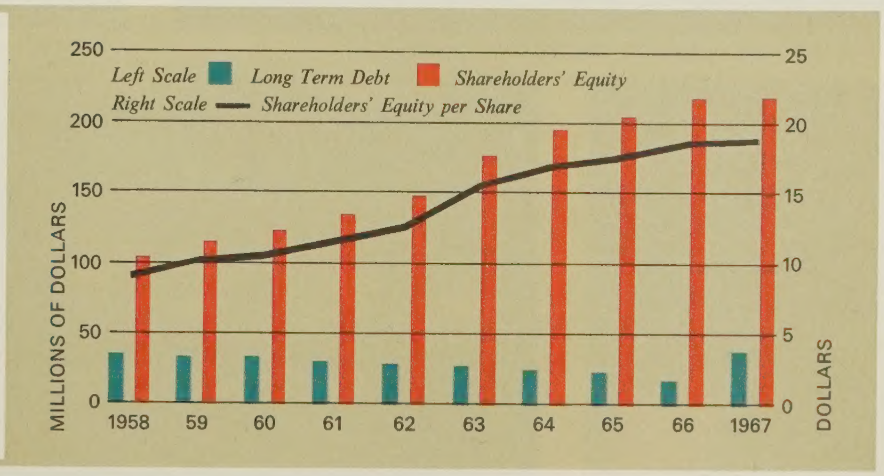
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

The returns on shareholders' equity and on sales declined to 6.5 per cent and 7.1 per cent respectively in 1967.



LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity increased slightly in 1967 to $18.93 per share and at the end of the year long term debt was 15 per cent of invested capital reflecting the sale of series C debentures.



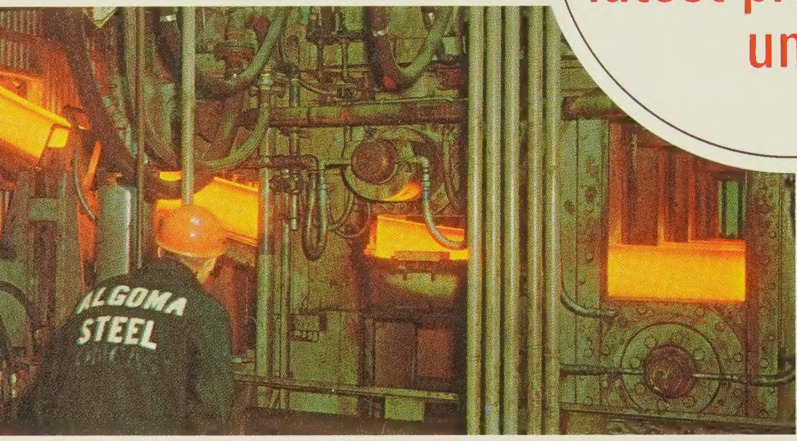
continuous casting of steel

ALGOMA'S latest production unit

1. Steel in the 110-ton ladle controlled poured into a smaller ladle holding 13 tons—this is called a tundish

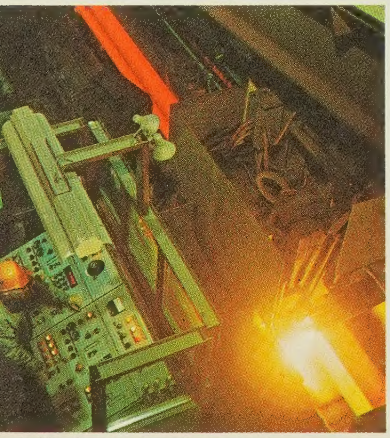
2. Casting floor showing steel flowing from ladle to tundish and from tundish into 4 moulds

3. Blooms moving through cooling zones of the spray chamber

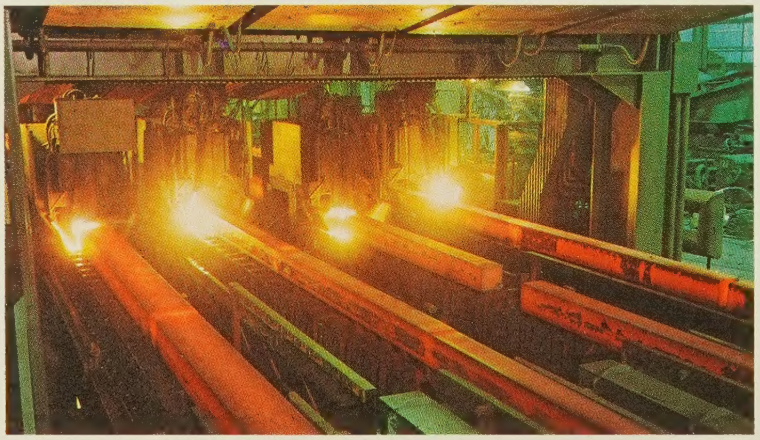


4. No. 1 strand bloom leaving spray chamber and entering straightener

5. Blooms leaving straighteners and approaching torch stations



6. No. 1 strand torch cut station



7. Blooms on run-out table having been flame-cut

8. Continuous cast blooms on cooling bed

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Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.

DIRECTORS

John B. Barber *Vice President - Finance, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
John D. Barrington *Mining consultant and company director*	Toronto, Ontario
*Wilfred R. Binch, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors* *Deceased September 19th, 1967*	Toronto, Ontario
*Sir Philip Dunn, Bart. *Financier and company director*	London, England
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
Gilbert W. Humphrey *Chairman, The Hanna Mining Company*	Cleveland, Ohio, U.S.A.
Douglas Joyce *Vice President - Operations, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E. *Chairman, Canada Steamship Lines, Limited*	Montreal, Quebec
W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *President, Dominion Bridge Company, Limited*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *President, Canadian General Investments Limited*	Toronto, Ontario
Dr. Egon Overbeck *President, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Ulrich Petersen *Member, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
*Dr. G. Wagner *President, Mannesmann International Corporation, Limited*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Winnipeg, Manitoba
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors*	Toronto, Ontario
Dr. Wilhelm Zangen *Honorary Chairman, Supervisory Board, Mannesmann, A.G.*	Dusseldorf, West Germany

OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
Donald A. Machum	Vice President - Administration
C. Carson Weeks	Vice President - Sales
David M. Farrell	Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

HIGHLIGHTS OF 1967

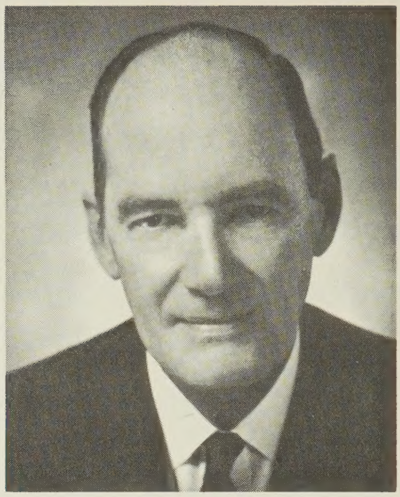
(with comparative figures for 1966)

	1967	1966	INCREASE OR (DECREASE)
	(dollars and tons in thousands)		
Net sales	$200,622	$235,479	$(34,857)
Net earnings — total	$ 14,207	$ 24,796	$(10,589)
— per share	$ 1.22	$ 2.14	$ (.92)
— per cent of income	7.0%	10.4%	(3.4%)
— per cent of average shareholders' equity	6.5%	11.7%	(5.2%)
Cost of products sold as per cent of net sales	79.3%	74.1%	5.2%
Dividends paid — total	$ 11,607	$ 11,606	$ 1
— per share	$ 1.00	$ 1.00	
Capital and mine development expenditures	$ 38,995	$ 33,451	$ 5,544
Depreciation and amortization	$ 17,610	$ 16,559	$ 1,051
Long term debt at year end	$ 39,725	$ 19,000	$ 20,725
Production — iron	N.T. 1,957	N.T. 2,241	N.T. (284)
— raw steel	N.T. 2,073	N.T. 2,347	N.T. (274)
Shipments — steel products	N.T. 1,451	N.T. 1,715	N.T. (264)
Approximate number of shareholders at year end	13,936	13,284	652

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 25th, 1968 at 2:15 p.m. Eastern Standard Time. A formal notice of the meeting and a proxy will be mailed separately.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



Chairman and President
David S. Holbrook

Algoma's sales declined 15 per cent in 1967 with the drop almost entirely in the first half of the year. This is attributable to two strikes at the Steelworks Division and a prolonged strike at the plant of Algoma's largest Canadian customer which resulted in extensive loss of business. The loss of business, added costs directly related to the strikes and other increased costs impaired earnings which were 39 per cent lower before an extraordinary charge.

Last year a group of companies indebted to Algoma Steel for a substantial amount became involved in financial difficulties. Algoma also had investments in shares of a company which held a controlling interest in this group and in notes of one of the companies. Efforts since November to avoid a loss on these accounts receivable and investments were not successful and estimated losses have been provided for in 1967 by extraordinary charges of $1 million to earnings and $2 million to retained earnings.

$3-million

The new coke oven battery and the four strand bloom section of the Continuous Casting Plant were brought into production last September and should make a significant contribution to earnings after start-up expenses. A considerable amount of rearranging of auxiliary and service facilities was completed to clear sites for additions to be made in the expansion program and new service facilities were constructed.

Work was slowed down on the blast furnace, the 160″ plate mill and the second L-D oxygen steel plant in August because of reduced sales and earnings in the first half of last year and uncertainties created by discontinuance of accelerated depreciation, the Report of the Royal Commission on Taxation and proposed anti-dumping legislation. Manufacture of the plate mill has been resumed and installation is scheduled for completion in 1970. Design engineering is being completed on the blast furnace and the steelmaking plant but manufacture of these units will be

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delayed until the uncertainties referred to have been resolved and a more realistic appraisal can be made of future economic conditions.

In September the first iron pellets were produced for Algoma by Steep Rock Iron Mines Limited and converted into iron, and in October the first ore was mined from the new Ruth and Lucy Mine. These new sources of iron ore further reduce dependence on higher cost purchased ores and yield income tax benefits.

The Federal Government is planning legislation to become effective in July this year to implement the International Code on Anti-Dumping agreed to in the Kennedy Round under the G.A.T.T. negotiations and this legislation could have an adverse effect on the Canadian steel industry. Off-shore producers have already made inroads into Canadian steel markets and dumping legislation in the United States somewhat similar to that proposed in Canada has not proven to be practical protection for steel producers in that country. The Federal Government has been and is again urged to move cautiously on this legislation to ensure that the position of Canadian steel producers is not further impaired in their home market.

Algoma cooperated in the organization of the International Iron and Steel Institute which held inaugural meetings in Brussels last November. This Institute brings together the combined knowledge, experience and technical competence of steel industries in the countries of the free world. It will maintain statistics and undertake research and studies in scientific, economic and other areas relating to progress and development of the steel industry.

It is with sincere regret that the death is recorded of Wilfred Reese Binch, Q.C. on September 19th, 1967. He was a partner in the firm of McMillan, Binch, Berry, Dunn, Corrigan & Howland, which has been general counsel to Algoma for many years and had been a respected and valued director and member of the executive committee of Algoma Steel since 1962.

The late W. R. Binch was replaced on the Board of Directors February 7th, 1968 by Ross Dunn, Q.C., a partner in the McMillan firm.

The Board of Directors held four meetings in Montreal, four in Toronto and two in Sault Ste. Marie.

It is again a pleasure to thank employees at all levels for their efforts.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
March 5th, 1968.

REVIEW OF 1967 OPERATIONS

Financial

Sales were $201 million, a decline of $35 million from 1966 and earnings before an extraordinary charge were $15.2 million, a decline of $9.6 million. Earnings before the extraordinary charge were $1.31 and cash flow $3.12 per share compared to $2.14 and $4.13 per share in 1966. Net earnings were $14.2 million, equal to $1.22 per share. A combination of factors resulted in a recovery of income taxes.

Income from investments declined $528 thousand as less funds were available for investment during the year.

The extraordinary charge to earnings of $1 million resulted from providing for estimated losses on accounts receivable owed by The Toronto Iron Works, Limited and wholly-owned subsidiaries. These companies became involved in serious financial difficulties in 1967, are in receivership and efforts by Algoma to avoid a loss on these accounts were not successful. The full amount of an investment in shares of Wimco Industries (Eastern) Limited, which held the controlling interest in The Toronto Iron Works, Limited, and about 80 per cent of an investment in Toronto Iron notes were charged to retained earnings. The accounts receivable and notes were secured by approximately 123 thousand shares of The Toronto Iron Works, Limited, which were regarded as good realizable security. The balance of the accounts and notes is shown as a non-current asset in the balance sheet. This is the only major loss Algoma has suffered on investments or trade accounts since incorporation in 1934.

Operating costs increased sharply as a per cent of sales. The major factors responsible were labour unrest at the Steelworks and Algoma Ore Divisions, strikes, considerably higher employment costs and start-up expenses on new facilities.

The increased costs were not offset by modest price increases early in the year and productivity did not increase. Depreciation also increased largely as a result of expenditures on new plant from which no earnings were derived in the year. Depreciation was again accrued on a straight-line basis at rates expected to write off fixed asset costs over the estimated lives of the assets and mine development and equipment costs were amortized at rates calculated to write them off over estimated recoverable reserves.

Interest and expense on long term debt rose as a result of an issue of series C debentures.

Income from the mine leased by Algoma at Steep Rock Lake is exempt from income tax for three years under special Orders-in-Council and it is expected that income from the new Ruth and Lucy Mine will also qualify for exemption from income tax for three years.

Total dividends at 25 cents per share quarterly, the same rate as in 1966, amounted to $11.6 million. The Department of National Revenue has advised that Canadian shareholders will qualify for deduction of 20 per cent depletion allowance for income tax purposes on these dividends compared to 15 per cent on dividends in 1966.

Accounts receivable and inventories increased during the year. Sales were higher at the end of the year than at the end of 1966 when there was a strike at the Steelworks and customers require increasingly faster delivery on orders which necessitated an increase in inventories of steel products.

Working capital at the year end was $61.4 million after reserving $10 million for construction and expansion and the ratio of current assets to current liabilities was 3.2 to 1.

In November the Federal Government announced a program for repayment of the Refundable 5% Corporation Tax. The amount payable to Algoma in 1968 is $1.1 million and is in current assets in the balance sheet; the remaining $778 thousand will be repaid next year and is a non-current asset.

The market value of long term investments decreased approximately $3 million almost entirely due to a decline in the market price of common shares of Canada Steamship Lines, Limited. Algoma increased its shareholding in Dominion Bridge Company, Limited about 1 per cent to almost 44½ per cent during the year.

Deferred past service pension costs are being amortized annually against earnings and the past service pension liability is being funded by annual instalments which continue until 1989.

The balance of the loan secured by series B debentures was repaid and $1 million of series A debentures redeemed and held at the end of the year have been applied in satisfaction of this year's sinking fund requirement.

In November the Corporation sold $20.7 million of a $30 million private issue of 7⅜% series C sinking fund debentures to assist in financing the expansion program; the balance of $9.3 million was subscribed for delivery and payment this year. These debentures rank equally with series A debentures, are due October 1st, 1987 and all or any part may be redeemed at any time. A sinking fund must be provided to redeem $1.2 million each year from 1972 to 1986 inclusive.

Total outstanding shares increased to 11,608,434 as a result of a purchase of 2,000 shares under the stock option plan. The total number of shareholders increased 5 per cent to 13,936 and the number resident in Sault Ste. Marie increased one third to 1,542.

The Reports of the Federal Royal Commission on Taxation and of the Ontario Committee on Taxation contain recommendations for radical changes in the basis of taxation of corporations. Some of these proposals are regarded as completely unreasonable and, if implemented, they would have unfavourable effects on the steel industry. A brief on the former Report was submitted to the Minister of Finance last August and a brief on the latter will be submitted to the Treasurer of Ontario in April.

Sales

Steel product shipments declined 15 per cent to 1.5 million tons and the drop was entirely in shipments into the Canadian market. Exports of steel products represented 17 per cent of total shipments, an increase of 3 per cent.

The average price realized at Sault Ste. Marie on sales of steel products was $124.82 compared to $124.55 in 1966. Higher transportation costs, a larger proportion of less highly finished products, shipments without price increases in the early part of the year, and pressure on prices caused by severe competition from off-shore producers practically offset modest price increases early in 1967.

Shipments of iron declined 22 per cent to 216 thousand tons in 1967 with most of the drop in exports to the United States.

Shipments of Algoma Sinter to the United States amounted to 179 thousand gross tons, a decrease of 29 per cent and will probably be at the same level this year.

Repayments on the loan secured by series B debentures were contingent on sales to the lender and, although this loan has been completely repaid, this is not expected to have a material effect on sales to this customer.

Order receipts for rolled steel products were at a low level from late 1966 until the middle of 1967 when they began to improve and the backlog at the end of last year was slightly higher.

From 1962 to 1965 when the Canadian economy was expanding at a rapid rate, the Canadian steel industry was unable to satisfy domestic requirements of rolled steel products and Japan and Europe were suffering from excess steel production capacity. This opened the door for exports to Canada, the trend of which was steadily upward in tonnage, range of products and extent of geographic penetration.

From 1966 when steel consumption in Canada began to slow down, the Canadian steel industry, because of expansion, has been capable of supplying a greater proportion of domestic demand for rolled steel products. However, one result of an estimated 70 to 80 million ton surplus in world steel production capacity has been that, to maintain production at levels which will cover overhead and incremental costs, off-shore producers frequently establish export prices which do not yield satisfactory profit margins. In 1966 and 1967 im-

ports from off-shore producers were about 12 per cent of Canadian steel consumption and in many cases these imports have been at extremely low prices and on extended credit terms.

Implementation of agreements reached in the Kennedy Round under the G.A.T.T. negotiations could affect the Canadian steel industry in two ways. A five year program of phased tariff reductions on imports of certain types of steel and manufactured products was instituted in January this year and although this will not have an immediate effect on Canadian steel producers, it may eventually hurt them if customers affected by the tariff reductions are not able to meet international competition. There are more serious implications in legislation proposed under the International Code on Anti-Dumping which is planned to become effective in July. Under this liberalized anti-dumping legislation it will be difficult and perhaps impossible in many cases to prove injury to an industry when it has actually occurred, and even if it should be possible to establish injury, the time required to do so and for action to be taken could result in serious damage to Canadian steel producers. Algoma and the two other major Ontario steel producers submitted a joint brief on the proposed Federal legislation to a special committee of the Tariff Board and representatives of the three companies appeared before that committee.

Operations

Production of Algoma Sinter, coke, iron and raw steel was lower than in 1966 because of strikes and production of coal was higher, as shown below:

		1967	1966
		(thousands of tons)	
Algoma Sinter	G.T.	1,562	1,805
Coal	N.T.	1,841	1,685
Coke	N.T.	1,295	1,410
Iron	N.T.	1,957	2,241
Raw steel	N.T.	2,073	2,347

At the Steelworks Division, a record proportion of raw steel — almost 65 per cent, was produced in the more efficient L-D oxygen steel plant.

The first coke was produced in the new coke oven battery in September and the new four strand bloom section of the Continuous Casting Plant was brought into operation the same month.

The first pellets were produced in September from ore from the Corporation's leased mine at Steep Rock Lake and converted into iron. Pellets from this source should improve blast furnace performance.

At the Algoma Ore Division, 86 per cent of the raw ore sintered was from the George W. MacLeod underground mine, 13 per cent from the Sir James open pit mine and 1 per cent from the new Ruth and Lucy open pit mine. Over 90 per cent of the total Algoma Sinter produced was used in the Corporation's blast furnaces and improvements made in the grade of Algoma Sinter will permit the use of larger tonnages of this product.

The total tonnage of sinter and pellets produced from ore from owned and leased mines and consumed in the blast furnaces again represented an increased proportion of the total ores used.

The blast furnace at the Canadian Furnace Division was relined and is back in operation.

Production of Cannelton Coal Company was at a higher level. More coal was sold and higher stocks were built up at the Steelworks Division to support operations during the off-navigation season.

The Solids Pipeline Research and Development Association continued research into transporting solids by pipeline under an agreement with Algoma and other Canadian companies. A pilot plant was completed in August and tests were made using water and oil as carrier fluids.

Development of high strength NiCuTen steels continued with good results and changes were made in the method of producing grinding balls which improved their quality.

Improvements, Additions and Alterations

For reasons given earlier in this Report, some parts of the expansion program were slowed down in August and capital expenditures which were expected to be $50 million amounted to $39 million.

Major projects completed at the Steelworks included:

A battery of sixty large coke ovens and ancillary facilities. The battery which has an annual rated capacity of 615 thousand tons of furnace coke has the most modern innovations, including smokeless charging equipment. Provision was also made for possible future coking of preheated coal. The addition of this battery and retirement of a 29 year old battery in February 1967 raised annual coke production capacity by 485 thousand tons to 1,852,000 tons

The four strand bloom section of the Continuous Casting Plant. This section is capable of casting blooms from 9″ x 10½″ to 10½″ x 16″. The plant is pictured in the Supplement to this Report

A second reheating furnace for the Rail and Structural and Wide Flange Beam Mills

New buildings for diesel repair, central trades, metallurgical, research, medical, training and employment

A 2 million gallon light oil storage tank

A large blast furnace turbo blower

Relining and enlargement of the large (No. 6) blast furnace which increased the Corporation's annual iron production capacity by 80 thousand tons to 2,575,000 tons

Expansion of railway transfer yards.

Major projects underway at the Steelworks at the end of the year included:

Installation of the two strand section of the Continuous Casting Plant for producing shaped sections and slabs up to 10″ x 30″. This is scheduled for trial casting in March. Upon completion, Algoma will have a total installed capacity of 600 thousand tons of continuous cast product

Installation of a bloom scarfing machine and replacement of mill tables in the 44″ Blooming Mill

Installation of a phenol recovery plant to improve the quality of water discharged to the river

Installation of a slab storage yard for the new 160″ Plate Mill and the 106″ Wide Hot Strip Mill

Building alterations and extensions for the 160″ Plate Mill and for relocating the plate finishing line and manufacture of the mill.

The Algoma Ore Division signed a 99 year lease at reasonable royalty rates on property close to the Corporation's other producing mines at Michipicoten. Development work was completed and mining started in October on the new Ruth and Lucy Mine located on this property. This mine is estimated to contain 6 million tons of siderite iron ore and is capable of being mined by open pit methods at a rate of 600 thousand gross tons annually which will be sintered with ore from the George W. MacLeod underground mine.

Development work and purchase of equipment for the new No. 8 high volatile coal mine was substantially completed at Cannelton Coal Company. Production from this mine is expected to be at a lower cost than that from existing mines and should reach capacity in the second quarter of this year. Additions and alterations were made to the high volatile coal cleaning plant at Cannelton, West Virginia. These will improve the quality of coal produced, recover substantial tonnages which would otherwise have had to be discarded and increase the annual capacity of the plant by 250 thousand tons.

In November an agreement was signed with Crucible Steel Company for the long term lease at reasonable royalty rates on high volatile coal properties adjacent to the Corporation's properties at Cannelton, West Virginia, which added over 30 million tons to recoverable coal reserves.

Capital expenditures are expected to amount to $39 million in 1968 and will include the following besides the projects underway at the end of the year:

Water lines, sewers and power services for the 160″ Plate Mill

Additional equipment for finishing wide hot rolled strip and sheet

Conversion of coke oven gas cleaning equipment to a more efficient type

A coil banding line for cold rolled strip and sheet

Additional equipment to recover light oil from coke oven gas.

Outlook

It is not possible at present to predict the future of the Canadian steel industry over either the short or long term with any degree of assurance. Economic conditions in Canada are tied closely to those in the United States and are very unsettled. Only a modest increase in Gross National Product is forecast for this year and there is not expected to be any rise in capital expenditures with the result that the construction industry, which is a large steel user, will probably operate at a relatively low level throughout the year. Interest rates have been pushed to record high levels and there is no relief in sight from these high rates. The demands of labour unions continue to be excessive and there have not been compensating increases in productivity. Business in most manufactured products such as steel has become international in character and as a result of lower wage levels and government assistance to industry in foreign countries imports into Canada are creating severe competition and downward pressure on prices. The result is that the cost/price squeeze is increasing, profit margins are narrowing and it is becoming increasingly difficult and expensive to raise capital.

Further beclouding the economic picture in Canada and adding seriously to the uncertainties management must cope with are questions as to what action governments will take on the Reports of the Royal Commission on Taxation, the Ontario Committee on Taxation and on agreements reached in the G.A.T.T. negotiations. Some of the major recommendations in the tax reports are based to a large extent on untried theories and do not fully recognize the particular characteristics of the Canadian economy. If these should be implemented, industry, and particularly the steel industry, would be dealt a severe blow which would reduce its ability to compete and retard its progress for years. These uncertainties facing industry must be resolved as soon as possible to permit constructive planning and concentration on reducing costs and increasing productivity. It is also important that further steps be taken promptly by governments to restrict their rapidly expanding non-productive expenditures and to increase recognition, particularly by labour unions, that unrealistic increases in labour rates have already impaired the competitive position of Canadian industry in both its own and export markets and that further increases will pose a serious threat to the welfare of the Canadian economy.

Algoma's shipments in the first half of this year will probably exceed those in the last half of 1967 but beyond this the picture is not clear. However, it is unlikely that profit margins will improve in 1968 as there can not be general price increases to offset increased costs of labour, material, services and capital.

A major study of systems has been completed at the Steelworks Division for control from receipt of the customer's order to delivery of the steel product. Consultants with broad experience in the industry assisted in establishing a three year improvement program and full advantage was taken of the experience of management personnel from all phases of operations. This program will involve improvements in the control of order receipts, the scheduling of production and the achievement of optimum balance between production capabilities, inventory requirements and sales. Organizational changes were made to facilitate implementation of this program which is expected to improve earnings by improving efficiency, reliability and service to customers.

Employee, Community and Public Relations

Labour, pension and welfare agreements were signed in February 1967 with two brotherhoods representing railway employees at the Steelworks. After a one day strike, settlement was reached on terms similar to those in agreements signed earlier with the six other union locals at the Corporation's three Divisions. The twenty-eight day strike of bricklayers from mid-December 1966 to mid-January 1967 and the one day strike of railway brotherhoods in February were the first suffered by the Steelworks in over twenty years. Although the strike in February only shut down the Steelworks for one day, it disrupted operations for a much longer period and the threat of a second strike following so closely after the first one caused extensive loss of business. There were almost 150

thousand man days of work lost and the impact of these strikes on sales and earnings of the Corporation and on the economies of Sault Ste. Marie and Wawa was serious.

The decline in output per man hour experienced since mid-1965 was intensified as a result of general labour unrest prior to and during the strikes. Fewer than 3 per cent of total employees were directly involved and these strikes illustrate the disproportionate economic power of small union locals in a large industrial enterprise.

These problems are of real concern to shareholders, employees and communities and efforts are being made to find solutions to them. Algoma Steel contributed to a submission by the Canadian Manufacturers' Association to the Rand Commission inquiry into labour disputes and made a separate submission stressing specific problems and labour difficulties affecting construction. Liaison was maintained with other industries involved in construction and with building contractors in an attempt to bring about greater labour stability and efficiency in construction.

In recognition of the contribution of management and staff personnel, and based on research into compensation in Canadian industry, salary adjustments for most of these employees were made in February 1967. Major improvements were also made in the contributory pension plan for management employees in January this year.

Wage rates increased in August an average of approximately 12½ cents per hour for employees represented by bargaining units at all Canadian Divisions under labour agreements which expire July 31st, 1969. An agreement covering employees at Cannelton Coal Company is effective until September 30th, 1968.

Continued stress on safe working practices and provision of the best safety equipment available resulted in a further slight reduction in the accident frequency rate. This was achieved despite a broadened definition by the Workmen's Compensation Board of what constitutes an industrial accident and a below average accident experience. All supervisors received training to improve their perception of safety factors and possible improvements under a new Safety Audit program.

Educational and training programs were further expanded and improved. Employees studied a wide variety of subjects and a few acquired university degrees. The efficiency of these programs was enhanced by completion of a new Employee Relations building, which includes class and seminar rooms, a Medical Centre and facilities for employment, safety, compensation and community relations employees. The results of internal training and education are becoming apparent from the increasing number of promotions from within the Corporation to staff and supervisory positions.

The Corporation continued to support Canadian educational, cultural and charitable agencies and employees were encouraged to participate in activities designed to improve their community and country. The Steel Pavilion, sponsored by the four Canadian primary steel producers, was a popular attraction at Expo '67 and told the story of Canadian steel to a wide audience.

A review entitled Air and Water Quality describing what has been done at the Steelworks to preserve natural conditions was published in August and sent to all shareholders and employees.

Approximately $73 million was spent in Sault Ste. Marie and $5 million in Wawa on wages, salaries, taxes, goods and services.

Personnel

In November, Donald A. Machum was appointed to the newly created position of Vice President - Administration and he resigned as Secretary and Vice President - Personnel. David M. Farrell who had been Assistant Secretary since 1966 was appointed Secretary.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

CONSOLIDATED

AS AT DECEMBER

ASSETS	1967	1966
CURRENT		
Cash	$ 1,354,820	$ 2,131,762
Marketable investments at cost which approximates market	11,310,957	12,576,402
Less – reserved (see below)	10,000,000	10,000,000
	1,310,957	2,576,402
Accounts receivable	31,935,354	31,567,723
Income and refundable taxes recoverable	3,163,877	—
Inventories at lower of cost or market (Note 3)	50,706,056	48,702,599
Prepaid expenses	1,302,987	1,131,245
Total current assets	89,774,051	86,109,731
REFUNDABLE 5% CORPORATION TAX	777,961	1,605,808
NON-CURRENT ACCOUNTS AND NOTES RECEIVABLE	814,000	—
INVESTMENTS AT COST		
Marketable	30,232,684	30,082,413
(market value 1967 $34,486,021 – 1966 $37,461,280)		
Other	201,274	1,691,516
	30,433,958	31,773,929
MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION AND EXPANSION	10,000,000	10,000,000
FIXED ASSETS		
Property, plant and equipment at cost (Note 4)	408,678,879	372,845,026
Mine development at cost	17,422,511	17,335,799
	426,101,390	390,180,825
Accumulated depreciation, depletion and amortization	190,438,518	177,418,611
	235,662,872	212,762,214
DEFERRED CHARGE		
Unamortized past service pension cost (Note 5)	6,545,991	6,864,722
	$374,008,833	$349,116,404

Approved on behalf of the Board

D. S. HOLBROOK Director

T. R. McLAGAN Director

ALANCE SHEET

1967 AND 1966

LIABILITIES	1967	1966
CURRENT		
Accounts payable and accrued liabilities	$ 26,768,669	$ 23,875,353
Loan payable	—	2,600,447
Income and other taxes payable	1,566,472	2,978,345
Total current liabilities	28,335,141	29,454,145
LONG TERM DEBT – SECURED (Note 6)		
5¼% series A sinking fund debentures	19,000,000	19,000,000
7⅜% series C sinking fund debentures	20,725,000	—
	39,725,000	19,000,000
PAST SERVICE PENSION LIABILITY (Note 5)	17,778,294	18,405,917
DEFERRED INCOME TAXES (Note 2)	68,442,000	63,158,000
SHAREHOLDERS' EQUITY (Note 7)		
Capital stock		
Authorized – 30,199,760 shares of no par value		
Issued – 11,608,434 shares (1966 – 11,606,434 shares)	10,935,745	10,905,545
Retained earnings	208,792,653	208,192,797
	219,728,398	219,098,342
	$374,008,833	$349,116,404

See Notes to Consolidated Financial Statements on page 16

CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

		1967	1966
INCOME	Net sales	$200,622,252	$235,478,828
	Investments	3,026,558	3,555,246
		203,648,810	239,034,074
EXPENSES	Cost of products sold	159,020,114	174,549,659
	Rearranging plant	179,622	791,530
	Administrative and selling	5,636,460	5,699,529
	Interest and expense on long term debt	1,513,897	1,162,773
	Depreciation and amortization	17,609,927	16,559,057
		183,960,020	198,762,548
EARNINGS	Before income taxes	19,688,790	40,271,526
INCOME TAXES	Current (Note 2)	(820,000)	9,021,700
	Deferred (Note 2)	5,284,000	6,454,000
		4,464,000	15,475,700
EARNINGS	Before extraordinary charge	15,224,790	24,795,826
EXTRAORDINARY CHARGE	For doubtful accounts receivable (after $1,102,000 income taxes)	1,018,000	—
NET EARNINGS		$ 14,206,790	$ 24,795,826

CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
Balance at beginning of year	$208,192,797	$195,003,405
Net earnings	14,206,790	24,795,826
	222,399,587	219,799,231
Dividends paid	11,606,934	11,606,434
Provision for doubtful investments	2,000,000	—
Balance at end of year	$208,792,653	$208,192,797

See Notes to Consolidated Financial Statements on page 16

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

		1967	1966
FUNDS WERE PROVIDED BY	Net earnings	$14,206,790	$24,795,826
	Charges to earnings not requiring cash outlay:		
	Depreciation and amortization	17,609,927	16,559,057
	Income tax applicable to future years	5,284,000	6,454,000
	Investments reserved for expansion at end of previous year	10,000,000	15,000,000
	Sale of series C debentures	20,725,000	—
	5% Corporation Tax refundable in the following year	1,072,553	—
	Other – net	309,852	563,711
	Total	69,208,122	63,372,594
FUNDS WERE APPLIED TO	Plant and equipment additions	37,857,283	32,065,021
	Mine development	1,137,326	1,385,942
		38,994,609	33,450,963
	Purchase of series A debentures	—	1,091,000
	Repayment of long term loan	—	1,153,496
	Loan transferred to current liabilities	—	2,600,447
	Payment of dividends	11,606,934	11,606,434
	Investments reserved for expansion	10,000,000	10,000,000
	Loans secured by marketable investments	—	1,500,000
	Reduction of past service pension liability	627,623	286,311
	Refundable 5% Corporation Tax	244,706	1,605,808
	Excess of expenditures over accruals on operating reserves	1,636,926	124,515
	Accounts and notes receivable transferred to non-current assets	814,000	—
	Provision for doubtful investments	500,000	—
	Total	64,424,798	63,418,974
WORKING CAPITAL	At end of year	$61,438,910	$56,655,586

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1967 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
February 22, 1968.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1967

(1) PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of all subsidiary companies. Minority interests are not significant and are included in current liabilities in the balance sheet; the increase in 1967 has been provided for in cost of sales in the earnings statement. The assets and liabilities of the United States subsidiary are included in the financial statements at par of exchange. If these were converted to Canadian dollar equivalent there would not be any substantial effect on the financial position.

(2) INCOME TAXES

Deferred Income Taxes of $5,284,000 in the earnings statement resulted from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This amount is included in Deferred Income Taxes in the balance sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

Certain income is exempt from income tax for thirty-six months commencing October 1, 1967. Without such exemption taxes on income would have increased approximately $800,000.

(3) INVENTORIES

Inventories at December 31, 1967 and 1966 are:

	1967	1966
Finished products	$10,396,921	$ 9,029,485
Work in process	10,071,746	8,555,714
Raw materials and supplies	30,237,389	31,117,400
	$50,706,056	$48,702,599

(4) PROPERTY, PLANT AND EQUIPMENT

Commitments of approximately $40 million are outstanding at December 31, 1967 on the major expansion program which commenced in 1965.

(5) PENSIONS

The Deferred Charge in the balance sheet for past service pension cost is being amortized by annual charges until December, 1989.

The Past Service Pension Liability in the balance sheet is being funded by annual instalments terminating December 31, 1989.

(6) LONG TERM DEBT

Series A debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem $1 million principal amount in each of the years 1968 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part may be redeemed at any time. At December 31, 1967 debentures redeemed and available to satisfy future sinking fund requirements amount to $1 million.

On November 15, 1967 the Corporation sold $20,725,000 of a $30 million issue of series C sinking fund debentures. The balance of $9,275,000 was subscribed for delivery and payment in 1968.

The series C debentures rank pari passu with series A debentures and are secured by a Supplemental Trust Deed under which a sinking fund must be provided to redeem $1.2 million principal amount in each of the years 1972 to 1986 inclusive. Debentures become due October 1, 1987 and all or any part may be redeemed at any time.

(7) SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These financial requirements are exceeded by a substantial amount.

During 1967 options were exercised on 2,000 shares for $30,200 under the stock option plan for certain employees. At December 31, 1967 there were unexercised options terminating in 1971 on 2,000 shares at $15.10 per share and terminating in 1974 on 69,750 shares at prices of $29.60 and $29.70 per share.

(8) REMUNERATION

Total remuneration of directors and senior officers amounted to $584,420 (1966 - $551,300).

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Cannelton Coal Company Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

COMPARISON OF FINANCIAL AND

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal net tons	Production: Algoma Sinter gross tons	Production: Iron net tons	Production: Raw steel net tons	Shipments of steel products net tons	Income $	Cost of products sold $	Rear-ranging plant $	Adminis-trative and selling $	Interest & expense on long term debt $	Depreciation and amortization $	Income taxes $	Net earnings $
1967	1841	1562	1957	2073	1451	203.6	159.0	.2	5.6	1.5	17.6	4.5	14.2 (1)
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3
1959	1457	1838	1552	1372	1045	164.5	116.5	.5	3.2	1.7	10.8	14.2	17.6
1958	1275	1632	1110	962	727	124.2	89.6	1.0	2.9	1.2	9.3	8.4	11.8
1957	1249	1582	1434	1066	823	144.0	105.7	1.7	3.0	.5	7.6	11.3	14.2
1956	1191	1411	1490	1105	871	144.0	107.4		2.8	.4	6.3	11.4	15.7
1955	896	1262	1294	990	764	114.7	88.0		2.2	.6	5.8	7.7	10.4
1954	626	1107	736	566	423	71.0	56.3	.1	1.7	1.0	5.6	1.9	4.4

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of invest-ments $	Source: Long term debt $	Source: Other — net (2) $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Divi-dends $	Application: Invest-ments $	Application: Refund-able 5% tax $	Increase in working capital $
1967	14.2	17.6	5.3		20.7	6.7	39.0	10.0		11.6		(.8)	4.7
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	–
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0			6.4
1959	17.6	10.8	1.7			.9	13.8	14.0	2.1	5.8			(4.7)
1958	11.8	9.3	4.9		25.0	(4.3)	35.9		.5	5.7			4.6
1957	14.2	7.6	1.9			.2	25.8		.6	5.7			(8.2)
1956	15.7	6.3	2.9	.7		.7	9.2		.6				16.5
1955	10.4	5.8	5.5			1.0	5.8		.7				16.2
1954	4.4	5.6	1.8				7.2		.4		2.1		2.1

(1) After extraordinary charge of $1.0 million.
(2) Includes investments reserved for expansion at end of previous year.

MITED AND SUBSIDIARIES

PERATING RESULTS 1967 - 1954

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data)

Year	Cash dividends $	Net earnings retained in business $	Cash flow from operations $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital %
1967	11.6	2.6	35.1	1.22	1.00	3.03	79.3	2.2	7.0	6.5	6.0
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	1.15	.60	2.35	74.9	6.1	9.3	11.0	9.2
1959	5.8	11.8	31.0	1.53	.50	2.68	71.6	8.6	10.7	15.8	12.7
1958	5.7	6.1	26.3	1.02	.50	2.29	72.9	6.8	9.5	11.6	9.9
1957	5.7	8.5	23.9	1.24	.50	2.10	74.2	7.8	9.9	15.1	13.6
1956		15.7	26.3	1.38		2.31	75.4	7.9	10.9	19.2	16.9
1955		10.4	22.7	.92		1.99	77.2	6.7	9.1	15.2	13.0
1954		4.4	9.7	.39		.85	79.5	2.7	6.2	7.3	6.3

BALANCE SHEET SUMMARY (millions of dollars excepting per share data)

Dec. 31	Working capital $	Non-current receivables $	Investments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge $	Long term debt $	Past service pension liability $	Deferred income taxes $	Deferred earnings on advance sales $	Shareholders' equity $	Shareholders' equity per share $	Number of shares issued (000)	Number of shareholders
1967	61.4	1.6	30.4	10.0	235.7	6.5	39.7	17.8	68.4		219.7	18.93	11608	13936
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537
1960	50.9		6.4		120.0	.6	32.4		21.3	.3	123.9	10.73	11542	7176
1959	44.5		6.5	14.0	104.3	.6	33.8		18.3	.3	117.5	10.19	11532	6394
1958	49.2		6.6		101.5	.7	35.9		17.0	.2	104.9	9.13	11490	4678
1957	44.6		6.6		70.7		11.4		12.1	.4	98.0	8.60	11406	3396
1956	52.8		6.7		52.8		12.0		10.2	.4	89.7	7.86	11406	2642
1955	36.3		7.4		50.6		12.6		7.3	.5	73.9	6.48	11406	2308
1954	20.1		7.4		51.1		13.3		1.8		63.5	5.57	11406	2152

Statistics on shares exclude shares owned by subsidiaries in 1956 and prior years, and are adjusted for share subdivisions in June 1957 and May 1966.

Average invested capital is the average of shareholders' equity plus long term debt less unamortized debenture expense at the beginning and end of the year.

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES	Sault Ste. Marie, Ontario Saint John, New Brunswick Montreal, Quebec Toronto, Ontario Hamilton, Ontario Windsor, Ontario Winnipeg, Manitoba Vancouver, British Columbia
PRODUCTS	Algoma Sinter Coke Coal Chemicals Pig Iron Blooms, Billets and Slabs Heavy and Light Rails Rail Fastenings Heavy Structurals Parallel Flange Beams Light Structurals Carbon Merchant Bars Reinforcing Bars Tube Rounds Grinding Balls and Rods Sheared Plate Universal Plate Hot Rolled Sheet and Strip Cold Rolled Sheet and Strip Electrical Sheet and Strip Skelp